



A Subsidiary of Bank On It, Inc.

CORPORATE VISION STATEMENT

Community Bank of San Joaquin is a complete financial resource to our customers. The financial guidance we provide allows them to devote their time and energy to successfully running their businesses rather than being concerned with their banking and other financial needs.

We provide this benefit to customers in our community by offering them an extensive range of fairly priced products and services and a strong working knowledge of the financial aspects of running a small business, all delivered through exemplary customer service.

CONTENTS

	PAGE
LETTER TO SHAREHOLDERS.....	3
REPORT OF INDEPENDENT AUDITORS.....	4
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED BALANCE SHEETS	5
CONSOLIDATED STATEMENTS OF OPERATIONS.....	6
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY	7
CONSOLIDATED STATEMENTS OF CASH FLOWS	8
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.....	9 - 35
SHAREHOLDER RELATIONS	36

This Annual Report, including the Consolidated Financial Statements and the related Notes, contains forward-looking statements about the Company within the meaning of the United States Private Securities Litigations Reform Act of 1995. These forward-looking statements generally can be identified by phrases such as the Company or its management “believes,” “expects,” “anticipates,” “foresees,” “estimates” or other words of similar import. Broadly speaking, forward-looking statements include forecasts of future financial results and condition, expectations for future operations and business, and any assumptions underlying those forecasts and expectations. Do not unduly rely on forward-looking statements. Actual outcomes and results might differ significantly from forecasts and expectations.

BANK ON IT, INC. AND SUBSIDIARY

Bank On It, Inc.

22 West Yokuts Avenue
Stockton, CA 95207-5715

Tel: (209) 956-7000
Fax: (209) 956-7720

April 20, 2011

To Our Shareholders:

Bank On It, Inc., parent company of Community Bank of San Joaquin (the Bank), reported a net loss of \$5.7 million in 2010 (\$3.67 per share) compared to a loss of \$2.5 million (\$1.63 per share) in 2009. Losses related primarily to write-downs on commercial real estate.

We have performed a thorough review of our remaining loan portfolio and feel that the risk of additional significant losses is not great. Recent data shows a gradual improvement in economic conditions and based on what we have observed, a continued deterioration in the Bank's loan portfolio is unlikely.

Although we are concentrating our efforts on managing credit quality, we are also taking steps to position the Bank for growth in the future. We have devoted significant resources to increasing the size and quality of our lending staff; we will be introducing a new financial service opportunity for our customers in 2011 and we are aggressively pursuing growth in the trust area of the Bank.

Despite a very disappointing year, Management and the Board are confident in the future of Community Bank of San Joaquin and community banks in general. As the economic times signal a "back to basics" approach in the banking industry, community banks are well-positioned to serve and support their local communities. The Board and staff of Community Bank of San Joaquin remain committed to our customers, our community and our shareholders.

We appreciate your continued support.

Sincerely,

Rudy G. Croce
Chairman

Jane Butterfield
President and CEO

Parent company of Community Bank of San Joaquin

REPORT OF INDEPENDENT AUDITORS

WWW.MOSSADAMS.COM

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders
Bank On It, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of Bank On It, Inc. and Subsidiary (the Company), as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity, and cash flows for the two years ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bank On It, Inc. and Subsidiary as of December 31, 2010 and 2009, and the consolidated results of their operations and their consolidated cash flows for the two years ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Stockton, California

April 15, 2011



CONSOLIDATED BALANCE SHEETS

ASSETS

	DECEMBER 31,	
	2010	2009
Cash and due from banks	\$ 2,372,689	\$ 3,264,431
Federal funds sold	<u>19,790,000</u>	<u>19,915,000</u>
Cash and cash equivalents	22,162,689	23,179,431
Securities available for sale	25,323,046	25,961,954
Securities held to maturity	6,597,204	6,947,266
FHLB stock and other investments, at cost	679,450	764,250
Loans, net	71,483,918	83,125,433
Premises and equipment, net	762,264	689,350
Foreclosed real estate	1,894,874	2,232,034
Interest receivable and other assets	<u>2,544,632</u>	<u>3,514,730</u>
Total assets	<u>\$131,448,077</u>	<u>\$146,414,448</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Deposits		
Demand deposits	\$ 27,089,547	\$ 28,457,549
Interest-bearing checking	17,689,451	12,215,942
Money market checking	15,077,375	20,779,846
Savings deposits	6,190,702	5,697,473
Time deposits	<u>43,474,151</u>	<u>51,793,804</u>
Total deposits	109,521,226	118,944,614
FHLB borrowings	11,250,000	11,250,000
Junior subordinated debt	4,124,000	4,124,000
Interest payable and other liabilities	<u>1,050,793</u>	<u>731,247</u>
Total liabilities	<u>125,946,019</u>	<u>135,049,861</u>
Commitments and contingencies (Note 12)		
Shareholders' equity		
Preferred stock, no par value; 200,000 shares authorized and none issued or outstanding	-	-
Common stock, no par value; 4,000,000 and 2,300,000 shares authorized at December 31, 2010 and 2009, respectively; 1,556,329 shares issued and outstanding at December 31, 2010 and 2009	16,496,998	16,440,788
Accumulated deficit	(11,231,907)	(5,514,656)
Accumulated other comprehensive income	<u>236,967</u>	<u>438,455</u>
Total shareholders' equity	<u>5,502,058</u>	<u>11,364,587</u>
Total liabilities and shareholders' equity	<u>\$131,448,077</u>	<u>\$146,414,448</u>

See accompanying notes

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEARS ENDED DECEMBER 31,	
	2010	2009
INTEREST INCOME		
Interest and fees on loans	\$ 4,540,828	\$ 5,166,407
Interest on securities	1,180,586	1,380,840
Interest on federal funds sold	35,586	15,334
Interest on interest-bearing deposits in banks and money market funds	832	20,285
	5,757,832	6,582,866
INTEREST EXPENSE		
Interest on deposits	745,314	1,232,863
Interest on borrowings	543,028	582,534
	1,288,342	1,815,397
Net interest income	4,469,490	4,767,469
PROVISION FOR LOAN LOSSES	5,175,000	1,815,000
Net interest (expense) income after provision for loan losses	(705,510)	2,952,469
NON-INTEREST INCOME		
Service charges and fees	342,885	373,195
Trust income	254,957	229,562
Loss on sale of foreclosed real estate	(27,799)	(173,814)
Gain on sale of securities	356,543	11,116
Other	13,866	4,441
	940,452	444,500
NON-INTEREST EXPENSES		
Salaries and employee benefits	2,207,705	2,292,703
Occupancy and equipment	894,915	914,570
Write-down of foreclosed real estate	101,514	701,822
Other operating	2,390,059	1,875,264
	5,594,193	5,784,359
Net operating loss before provision for income tax	(5,359,251)	(2,387,390)
INCOME TAX PROVISION	358,000	155,000
Net loss	\$(5,717,251)	\$(2,542,390)
NET LOSS PER SHARE – BASIC	\$ (3.67)	\$ (1.63)

See accompanying notes

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Two years ended December 31, 2010

	Common Stock		Comprehensive	Accumulated	Accumulated Other Comprehensive	Total
	Shares	Amount	Loss	Deficit	Income (Loss)	Shareholders' Equity
Balances, January 1, 2009	1,482,356	\$16,112,775		\$ (2,713,360)	\$ 473,403	\$13,872,818
Stock dividend and cash paid for fractional shares	73,973	258,906	\$ -	(258,906)	-	-
Equity compensation	-	69,107	-	-	-	69,107
Comprehensive loss						
Net loss	-	-	(2,542,390)	(2,542,390)	-	(2,542,390)
Other comprehensive loss						
Unrealized loss on available-for-sale securities, net of tax of \$24,550	-	-	(34,948)	-	(34,948)	(34,948)
Total comprehensive loss			<u>\$(2,577,338)</u>			
Balances, December 31, 2009	1,556,329	16,440,788		(5,514,656)	438,455	11,364,587
Equity compensation	-	56,210	-	-	-	56,210
Comprehensive loss						
Net loss	-	-	\$(5,717,251)	(5,717,251)	-	(5,717,251)
Other comprehensive loss						
Unrealized loss on available-for-sale securities	-	-	(558,031)	-	(558,031)	(558,031)
Reclassification adjustment for net gain realized and reported in net loss	-	-	356,543	-	356,543	356,543
Total comprehensive loss			<u>\$(5,918,739)</u>			
Balances, December 31, 2010	<u>1,556,329</u>	<u>\$16,496,998</u>		<u>\$(11,231,907)</u>	<u>\$ 236,967</u>	<u>\$ 5,502,058</u>

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (5,717,251)	\$ (2,542,390)
Adjustments to reconcile net loss to net cash from operating activities:		
Provision for loan losses	5,175,000	1,815,000
Depreciation, amortization, and accretion, net	228,243	183,219
Net gain on sale of available-for-sale securities	(356,543)	(11,116)
Equity compensation	56,210	69,107
Decrease in unearned loan fees	(51,703)	(30,527)
Decrease in interest receivable and other assets	970,098	1,055,332
Write-down of foreclosed real estate	101,514	701,822
Loss on sale of foreclosed real estate	27,799	173,814
Increase in interest payable and other liabilities	319,546	63,471
Net cash from operating activities	<u>752,913</u>	<u>1,477,732</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of securities available for sale	(16,448,921)	(11,174,785)
Proceeds from sales of available-for-sale securities	6,137,448	1,833,382
Proceeds from maturities, principal pay-downs, and calls of available-for-sale securities	11,064,514	6,963,890
Proceeds from maturities, principal pay-downs, and calls of held-to-maturity securities	330,000	255,000
Net decrease (increase) in loans	3,318,050	(14,506)
Proceeds from sales of foreclosed real estate	3,408,015	2,314,715
FHLB stock redemption	84,800	-
Purchases of premises and equipment	(240,173)	(184,484)
Net cash from investing activities	<u>7,653,733</u>	<u>(6,788)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from FHLB borrowings	11,250,000	-
Repayment of FHLB borrowings	(11,250,000)	(5,000,000)
Net (decrease) increase in demand and interest-bearing deposits, money market, and savings	(1,103,735)	10,522,945
Net (decrease) increase in time deposits	(8,319,653)	97,919
Net cash from financing activities	<u>(9,423,388)</u>	<u>5,620,864</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,016,742)	7,091,808
CASH AND CASH EQUIVALENTS, beginning of year	<u>23,179,431</u>	<u>16,087,623</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 22,162,689</u>	<u>\$ 23,179,431</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	\$ 1,226,845	\$ 1,753,069
Income taxes	\$ 1,600	\$ 1,600

NON-CASH INVESTING AND FINANCING ACTIVITIES:

During 2010, the Company recognized an unrealized loss on available-for-sale securities of \$201,488 and equity was decreased by \$201,488.

During 2010, the Company transferred \$3,200,168 in loans to foreclosed real estate.

During 2009, the Company recognized an unrealized loss on available-for-sale securities of \$59,498. As a result, the net deferred tax asset was increased by \$24,550 and equity was decreased by \$34,948.

During 2009, the Company transferred \$1,680,494 in loans to foreclosed real estate.

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

Bank On It, Inc. (the Company) was formed on August 4, 1998, in the state of Delaware as B.O.I., Inc. and reincorporated by merging with a California corporation formed for that purpose on March 26, 1999. The Company was formed for the sole purpose of organizing a community-based California bank subsidiary, Community Bank of San Joaquin (the Bank). The Bank is a California state chartered bank, which opened for business on November 5, 1999, and operates two branches in Stockton, California. The Bank offers a wide range of deposit accounts, loan types, and specialized services, and provides general consumer and commercial banking services primarily to individuals, small-to-medium size businesses, and professionals. Upon the approval of the state and federal regulatory agencies, the Bank began offering trust and investment services in September 2001.

In 2006, the Company formed a wholly-owned unconsolidated subsidiary, Bank On It, Inc. Statutory Trust I (the Trust), for the purpose of issuing preferred beneficial interests in the Company's subordinated debentures (see Note 8).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows:

Use of estimates – In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

The allowance for loan losses is the most significant accounting estimate reflected in the Company's consolidated financial statements. The allowance for loan losses includes charges to reduce the recorded balances of loans receivable to their estimated net realizable value, as appropriate. The allowance is based on estimates, and ultimate losses may vary from current estimates. The Company provides for estimated losses on loans receivable and real estate when any significant and permanent decline in value occurs. These estimates for losses are based on individual assets and their related cash flow forecasts, sales values, independent appraisals, the volatility of certain real estate markets, and concern for disposing of real estate in distressed markets. Although management of the Company believes the estimates underlying the calculation of specific allowances are reasonable, there can be no assurances that the Company could ultimately realize these values. In addition to providing valuation allowances on specific assets where a decline in value has been identified, the Company establishes general valuation allowances for losses based on the overall portfolio composition, general market conditions, concentrations, and prior loss experience.

Other significant management judgments and accounting estimates reflected in the Company's consolidated financial statements include:

- Decisions regarding the timing and placement of loans on non-accrual;
- Determination, recognition, and measurement of impaired loans;
- Determination and evaluation of deferred tax assets and liabilities;
- Determination of the fair value of stock option awards;
- Determination of the fair value of financial instruments; and
- Determination of the fair value of foreclosed real estate.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of credit risk – Assets and liabilities that subject the Company to concentrations of credit risk consist of cash balances at other banks, loans, and deposits. Most of the Company's customers are located within San Joaquin County and the surrounding areas. The Company's primary lending products are discussed in Note 5 to the consolidated financial statements. The Company did not have any significant concentrations in its business with any one customer or industry. The Company obtains what it believes to be sufficient collateral to secure potential losses on loans. The extent and value of collateral varies based on the details underlying each loan agreement.

As of December 31, 2010 and 2009, the Company had cash deposits at other financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) insured limits. However, as the Company places these deposits with major financial institutions and monitors the financial condition of these institutions, management believes the risk of loss to be minimal.

Principles of consolidation – The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Community Bank of San Joaquin. All material inter-company accounts and transactions have been eliminated.

In May 2006, the Company issued junior subordinated debentures through the Trust, a grantor trust in which the Company owns all the common equity. The \$4.0 million in junior subordinated debentures and the \$124,000 representing the Company's equity investment in the common stock of the Trust have been reflected as junior subordinated debt on the consolidated balance sheets (see Note 8) in accordance with accounting standards.

Cash and cash equivalents – For purposes of the consolidated statements of cash flows, the Company considers cash, due from banks, and money market funds to be cash equivalents. All have maturities of three months or less.

Securities available for sale – Available-for-sale securities consist of bonds, notes, mortgage-backed securities, and debentures not classified as held-to-maturity securities. Unrealized holding gains and losses, net of tax impact, if any, are reported as a net amount in a separate component of shareholders' equity, accumulated other comprehensive income (loss), until realized. Gains and losses on the sale of available-for-sale securities are determined using the specific identification method. The amortization of premiums and accretion of discounts are recognized as adjustments to interest income over the period to maturity.

Securities held to maturity – Bonds, notes, and debentures for which the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and are reported at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income over the period to maturity.

Investments with fair values that are less than amortized cost are considered impaired. Impairment may result from either a decline in the financial condition of the issuing entity or, in the case of fixed interest rate investments, from rising interest rates. At each consolidated financial statement date, management assesses each investment to determine if impaired investments are temporarily impaired or if the impairment is other than temporary. This assessment includes a determination of whether the Company intends to sell the security, or if it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered other than temporarily impaired and that the Company does not intend to sell and will not be required to sell prior to recovery of the amortized cost basis, the amount of impairment is separated into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is calculated as the difference between the security's amortized cost basis and the present value of its expected future cash flows. The remaining difference between the security's fair value and the present value of the future expected cash flows is deemed to be due to factors that are not credit related and is recognized in other comprehensive income (loss).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and loan fees – Loans are reported at their principal outstanding balance net of charge-offs. Loan origination fees and certain direct loan origination costs are deferred and the net amounts are amortized to interest income by a method that approximates a level yield over the contractual life of the underlying loans. Miscellaneous fees such as late fees, servicing fees, and referral fees are recorded under service charges and fees.

Allowance for loan losses – The allowance for loan losses is established through a provision for loan losses charged to operations. The adequacy of the allowance for loan losses is periodically evaluated by the Company in order to maintain the allowance at a level that, in the opinion of management, is adequate to absorb losses inherent in existing loans and overdrafts. Management's evaluation of the adequacy of the allowance is based on a consideration of the Company's historical loss experience, known and inherent risks in the loan portfolio, including adverse circumstances that may affect the ability of the borrower to repay interest and/or principal, the estimated value of any underlying collateral, and an analysis of the levels and trends of delinquencies and charge-offs. Actual results could differ from those estimates.

When a loan or portion of a loan is determined to be uncollectible, the portion deemed uncollectible is charged against the allowance and subsequent recoveries, if any, are credited to the allowance.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as impaired. Impaired loans, as defined, are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. The general component relates to non-impaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired if, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due, according to the contractual terms of the loan agreement. Generally, the Company measures impaired loans based on the present value of expected future cash flows discounted at the historical effective interest rate, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral.

Income recognition on loans – Interest on loans, other than discounted installment loans, is credited to income based on the principal amount outstanding on a daily basis. Interest on discounted installment loans is recognized by a method that approximates the effective interest method. Interest accruals are discontinued on certain loans when collection of principal or interest is considered doubtful, or when a loan becomes contractually past due by 90 days or more with respect to interest or principal, except in cases where the loan is well collateralized and is in the process of collection. When a loan is placed on non-accrual status, all interest previously accrued, but not collected, is reversed against current period interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

Premises and equipment – Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line basis. The estimated lives used in determining depreciation are:

Leasehold improvements	5 years
Furniture, fixtures, and equipment	3 – 10 years
Computer equipment	3 years

Leasehold improvements are amortized over the lesser of the useful life of the asset or the term of the lease. The straight-line method of depreciation is followed for all assets for financial reporting purposes, but accelerated methods are used for tax purposes. Deferred income taxes have been provided for the resulting temporary differences.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreclosed real estate – Real estate acquired through, or in lieu of, loan foreclosure is expected to be sold and is recorded at the date of foreclosure at the lower of the recorded investment in the loan or its fair value less estimated costs to sell (fair value), establishing a new cost basis. After foreclosure, valuations are periodically performed by management with any subsequent write-downs recorded as a valuation allowance and charged against operating expenses. Operating expenses of such properties, net of related income, are included in other expenses. Gains and losses on the disposition of foreclosed real estate are included in non-interest income and expenses. The Company may make loans to facilitate the sale of foreclosed real estate. Gains and losses on financed sales are recorded in accordance with the appropriate accounting method, taking into consideration the buyer's initial and continuing investment in the property, potential subordination, and transfer of ownership.

Servicing assets – Periodically, the Company sells loans and retains the servicing rights. The gain or loss on sale of loans depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. To obtain fair values, quoted market prices are used if available. However, quotes are generally not available for retained interests, so the Company generally estimates fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions – credit losses, prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved.

No loans were sold during 2010 or 2009. As of December 31, 2010 and 2009, approximately \$15,425 and \$15,860, respectively, of the servicing asset has been amortized. The Company evaluated the servicing asset for impairment at December 31, 2010 and 2009, and determined that no valuation allowance was needed.

Total loans serviced for others were approximately \$4.5 million and \$5 million as of December 31, 2010 and 2009, respectively. Total servicing assets included in other assets were \$136,220 and \$151,645 at December 31, 2010 and 2009, respectively.

Transfers of financial assets – Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that prevent it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Income taxes – The Company uses the asset and liability method to account for income taxes. Under such method, deferred tax assets and liabilities are recognized for the future tax consequences of differences between financial statement carrying amounts of existing assets and liabilities and their respective tax basis (temporary differences). Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the year in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes in the year of enactment.

A valuation allowance is established to the extent that it is more likely than not that the benefits associated with the deferred tax assets will not be fully realized.

The Company has assessed its tax positions and has concluded there is no unrecognized tax benefit at December 31, 2010 and 2009.

The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2010 and 2009, the Company recognized no interest or penalties.

The Company files income tax returns in the U.S. federal jurisdiction and the state of California. With few exceptions, the Company is no longer subject to U.S. federal or state/local income tax examinations by tax authorities for years before 2007.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Shareholders' equity – During 2010, the Company's shareholders approved an increase in the number of authorized shares of common stock from 2,300,000 to 4,000,000. On December 30, 2009, the Board of Directors approved a 5% stock dividend on the Company's common stock. All references made to the number of shares and options authorized, issued, and outstanding for 2009 have been adjusted to reflect the stock dividend.

Comprehensive (loss) income – Comprehensive (loss) income includes net (loss) income and other comprehensive (loss) income. The Company's primary source of comprehensive (loss) income is unrealized gains and losses on securities available for sale. Reclassification adjustments result from gains or losses on securities that are realized and included in net income of the current period that also had been included in other comprehensive (loss) income as unrealized holding gains or losses in the period in which they arose. Total comprehensive (loss) income and the components of accumulated other comprehensive (loss) income are presented in the Consolidated Statements of Shareholders' Equity. For the years ended December 31, 2010 and 2009, \$356,543 and \$0, respectively, were reclassified out of comprehensive (loss) income into earnings.

Stock-based compensation – The Company recognizes compensation expense for awards of stock options to employees and directors based on the grant-date fair value of those awards. The fair value of each option granted is estimated on the date of grant using the Black-Scholes options-pricing model. The assumptions used in this model include an estimate of expected volatility, which is based on the historical volatility of the price of the Company's stock, and an estimate of the expected option term, which is based on consideration of the vesting period and contractual term of the option. In addition, the Company estimates the number of options expected to be forfeited based on historical forfeiture rates. The risk-free interest rates are equal to the U.S. Treasury yield at the time of the grant and commensurate with the expected term of the grant. Expense is recognized over the vesting period of the options. Compensation expense for awards of restricted stock are based on the market value of the Company's stock on the date of grant and is recognized over the stated performance or vesting period, as outlined in the individual grant. The Company's stock compensation plan and related assumptions used in determining the fair value of awards are discussed in Note 10.

Advertising costs – The Company expenses advertising costs as they are incurred. Advertising expense was \$40,760 and \$48,281 for the years ended December 31, 2010 and 2009, respectively.

Net loss per common share – Basic net loss per share amounts are computed by dividing net loss available to shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options and restricted stock, result in the issuance of common stock that share in the earnings of the Company. The treasury stock method is applied to determine the dilutive effect of stock options when computing diluted earnings per share. However, dilutive earnings per share amounts are not presented when a net loss occurs because the conversion of potential common stock is anti-dilutive.

Recent accounting pronouncements – In January 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*. The amendments in this ASU temporarily delay the effective date of the disclosures about troubled debt restructurings in ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, for public entities, including those whose stock trades over the counter. The delay is intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. Currently, the guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011. The amendments in this ASU apply to all public-entity creditors that modify financing receivables within the scope of the disclosure requirements about troubled debt restructurings in ASU No. 2010-20. The amendments in this ASU do not affect nonpublic entities. As this ASU is disclosure-related only, the adoption of this ASU in 2011 will not impact the Company's financial condition or results of operations.

In July 2010, the FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. This ASU amends Topic 310 to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent accounting pronouncements – (continued)

losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The amendments in this ASU apply to all entities, both public and nonpublic. The amendments in this ASU affect all entities with financing receivables, excluding short-term trade accounts receivable or receivables measured at fair value or lower of cost or fair value. For public entities, including those traded over the counter, the disclosures required by this ASU, as of the end of a reporting period, are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. For nonpublic entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2011. The amendments in this ASU encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. As this ASU is disclosure-related only, the adoption of this ASU did not impact the Company's financial condition or results of operations.

In April 2010, the FASB issued ASU No. 2010-18, *Receivables (Topic 310): Effect of a Loan Modification When the Loan is Part of a Pool That Is Accounted for as a Single Asset*. This ASU clarifies that modifications of loans that are accounted for within a pool under Subtopic 310-30, which provides guidance on accounting for acquired loans that have evidence of credit deterioration upon acquisition, do not result in the removal of those loans from the pool even if the modification would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The amendments do not affect the accounting for loans under the scope of Subtopic 310-30 that are not accounted for within pools. Loans accounted for individually under Subtopic 310-30 continue to be subject to the troubled debt restructuring accounting provisions within Subtopic 310-40. The amendments in this ASU affect any entity that acquires loans subject to Subtopic 310-30, that accounts for some or all of those loans within pools, and that subsequently modifies one or more of those loans after acquisition. The amendments in this ASU are effective for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. The amendments are to be applied prospectively. Early application is permitted. Upon initial adoption of the guidance in this ASU, an entity may make a onetime election to terminate accounting for loans as a pool under Subtopic 310-30. This election may be applied on a pool-by-pool basis and does not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration. Adoption of this ASU did not have an impact on the Company's financial statements.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This ASU requires: (1) disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurement categories and the reasons for the transfers; and (2) separate presentation of purchases, sales, issuances, and settlements in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). In addition, this ASU clarifies the requirements of the following existing disclosures set forth in the Codification:

Subtopic 820-10: (1) For purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and (2) a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements. This ASU is effective for interim and annual reporting periods beginning January 1, 2010, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning January 1, 2011, and for interim periods within those fiscal years. As this ASU is disclosure-related only, the adoption of this ASU did not impact the Company's financial condition or results of operations.

Reclassifications – Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 3 – CASH AND DUE FROM BANKS

Cash and due from banks includes balances with the Federal Reserve Bank and other correspondent banks. At times throughout the year, balances can exceed FDIC insurance limits. The Bank is required by the Federal Reserve Bank to maintain specified reserves. The average reserve requirements are based on a percentage of the Bank's deposit liabilities. In addition, the Federal Reserve Bank requires the Bank to maintain a certain minimum balance at all times. As of December 31, 2010 and 2009, the required cash reserve was \$445,000 and \$199,000, respectively.

NOTE 4 – SECURITIES

The amortized cost and estimated fair value of securities available for sale as of December 31, 2010 and 2009, are as follows:

	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	\$ 1,492,749	\$ 73,579	\$ -	\$ 1,566,328
U.S. government agencies	9,408,695	30,825	(30,908)	9,408,612
Mortgage-backed securities	13,876,870	472,177	(941)	14,348,106
	\$24,778,314	\$ 576,581	\$ (31,849)	\$25,323,046
	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agencies	\$ 5,493,842	\$ 115,423	\$ (3,750)	\$ 5,605,515
Mortgage-backed securities	19,721,679	674,793	(40,033)	20,356,439
	\$25,215,521	\$ 790,216	\$ (43,783)	\$25,961,954

The Company received proceeds of \$6,137,448 from the sale of available-for-sale securities in 2010. Gross realized gains and gross realized losses for the year ended December 31, 2010, on available-for-sale securities were \$356,543 and \$0, respectively.

The Company received proceeds of \$1,833,382 from the sale of available-for-sale securities in 2009. Gross realized gains and gross realized losses for the year ended December 31, 2009, on available-for-sale securities were \$11,116 and \$0, respectively.

NOTE 4 – SECURITIES (CONTINUED)

The amortized cost and estimated fair value of securities held to maturity as of December 31, 2010 and 2009, are as follows:

	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of states and political subdivisions	\$ 6,597,204	\$ 269,856	\$ (1,620)	\$ 6,865,440
	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of states and political subdivisions	\$ 6,947,266	\$ 333,686	\$ (8,064)	\$ 7,272,888

Information pertaining to securities with gross unrealized losses at December 31, 2010 and 2009, aggregated by investment type and length of time that individual securities have been in a continuous unrealized loss position follows:

Description of Securities	2010					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government agencies	\$4,956,410	\$ (30,908)	\$ -	\$ -	\$4,956,410	\$ (30,908)
Mortgage-backed securities	465,651	(941)	-	-	465,651	(941)
Obligations of states and political subdivisions	271,685	(1,620)	-	-	271,685	(1,620)
Total impaired securities	\$5,693,746	\$ (33,469)	\$ -	\$ -	\$5,693,746	\$ (33,469)
Description of Securities	2009					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government agencies	\$ 996,250	\$ (3,750)	\$ -	\$ -	\$ 996,250	\$ (3,750)
Mortgage-backed securities	4,279,338	(40,033)	-	-	4,279,338	(40,033)
Obligations of states and political subdivisions	524,949	(8,064)	-	-	524,949	(8,064)
Total impaired securities	\$5,800,537	\$ (51,847)	\$ -	\$ -	\$5,800,537	\$ (51,847)

NOTE 4 – SECURITIES (CONTINUED)

Certain investment securities shown in the previous table currently have fair values less than amortized cost and therefore contain unrealized losses. The Company considers a number of factors including, but not limited to: (a) the length of time and the extent to which the fair value has been less than the amortized cost, (b) the financial condition and near-term prospects of the issuer, (c) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for an anticipated recovery in value, (d) whether the debtor is current on interest and principal payments, and (e) general market conditions and the industry or sector-specific outlook. Management has evaluated all securities at December 31, 2010, and has determined that no securities are other than temporarily impaired.

The Company does not have the intent to sell the investments that are temporarily impaired, and it is more likely than not that the Company will not have to sell those investments before recovery of the amortized cost basis. The Company has evaluated these securities and has determined that the decline in value is temporary and is related to the change in market interest rates since purchase. The decline in value is not related to any issuer or industry-specific event. These temporary unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. At December 31, 2010, there were seven investment securities with unrealized losses. The Company anticipates full recovery of amortized cost with respect to these securities at maturity or sooner in the event of a more favorable market interest rate environment.

The amortized cost and estimated fair value of debt securities at December 31, 2010, by contractual maturity or call date, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or pre-pay obligations with or without call or pre-payment penalties.

	<u>Available for Sale</u>		<u>Held to Maturity</u>	
	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due in one year or less	\$ 1,499,318	\$ 1,527,230	\$ 827,885	\$ 833,137
Due after one year through five years	1,619,540	1,635,973	4,053,024	4,249,809
Due after five years through ten years	6,174,922	6,238,080	1,716,295	1,782,494
Due after ten years	15,484,534	15,921,763	-	-
	<u>\$24,778,314</u>	<u>\$25,323,046</u>	<u>\$6,597,204</u>	<u>\$6,865,440</u>

Securities having a carrying value of \$16,805,773 and \$14,484,465 were pledged at December 31, 2010 and 2009, respectively, as collateral for the Federal Home Loan Bank (FHLB) and for uninsured deposits held by the Company's trust department and deposits awaiting investment or distribution by the Company's trust department. Uninsured deposits held by the Company's trust department totaled \$2,956,289 and \$3,002,424, respectively, at December 31, 2010 and 2009. At December 31, 2010 and 2009, there were no deposits awaiting investment or distribution by the Company's trust department.

NOTE 5 – LOANS

Major classifications of loans are summarized as follows:

	DECEMBER 31,	
	2010	2009
Commercial and industrial		
Commercial	\$17,694,350	\$21,902,076
Agricultural	3,862,049	3,806,160
Commercial real estate		
Non-owner occupied	15,683,852	22,431,120
Owner occupied	13,063,721	10,819,236
Residential real estate		
Single family	12,003,368	9,842,094
Multi-family	4,037,449	6,087,215
Construction and land		
Commercial construction	4,817,293	6,571,230
Land acquisition and development	2,601,306	3,477,066
Consumer	501,615	882,764
	74,265,003	85,818,961
Deferred loan costs and (fees), net	66,879	15,176
Allowance for loan losses	(2,847,964)	(2,708,704)
	<u>\$71,483,918</u>	<u>\$83,125,433</u>

The Company's customers are primarily located in San Joaquin County. At December 31, 2010, approximately 29% of the Company's loans are for general commercial uses including professional, retail, and small business. Approximately 21% of the Company's loans are mortgage-type loans that are collateralized by residential real estate, with approximately 39% collateralized by commercial real estate. Approximately 10% of the Company's loans are construction and land loans. Additionally, 1% of the Company's loans were made for consumer purposes.

Commercial business and agricultural loans are made to finance working capital, acquire fixed assets or finance crop production. The loans may or may not be secured by collateral and may revolve or be required to rest for a period during the year. These loans are evaluated based on the working capital, debt service coverage and net worth of the borrower. The primary source of repayment is the cash flow of the borrower with secondary sources from either the guarantor or sale of the underlying collateral.

Commercial real estate loans are long-term loans made to finance the acquisition of real estate. Loans are secured by the underlying real estate and the primary source of repayment comes from the cash flow of the property or business owner on an owner occupied property. The secondary source of repayment comes from the sale of collateral or the financial capabilities of the underlying guarantor. Non-owner occupied loans are underwritten based on an acceptable loan-to-value ratio and cash flow adequate to service the debt. Owner occupied real estate loans are evaluated based on the cash flow of the underlying business as well as loan-to-value of the collateral.

Residential real estate loans are secured by multi-family as well as single-family non-owner and owner occupied residences. Non-owner occupied real estate loans are evaluated primarily on cash flow and secondarily on

NOTE 5 – LOANS (CONTINUED)

the value of underlying collateral. Effective in January 2010, the Bank chose to discontinue the origination of mortgage loans secured by owner occupied residences.

Construction loans are made to developers and builders to finance land acquisition as well as subsequent construction. Construction loans are also made to finance the construction of owner occupied facilities. In the case of speculative construction, underwriting is focused on the financial strength, reputation and experience of the builder, projected loan-to-value and expected success of the project. The primary source of repayment comes from the sale or permanent financing of the underlying collateral. The Bank is not currently pursuing builder/developer loans due to the speculative nature of the loan. Owner occupied real estate is underwritten based on the underlying cash flow of the business as well as financial capacity of the underlying guarantor.

Consumer loans consist primarily of loans to individuals for personal purposes such as automobile purchases, overdraft protection and unsecured lines of credit. Repayment is expected from the cash flow of the individual.

In accordance with ASU No. 2010-20 effective for years ending after December 15, 2010, the following disclosures regarding the allowance for loan losses and the quality of the loan portfolio, by segment, are presented below as of December 31, 2010.

	<u>Commercial and Industrial</u>	<u>Commercial Real Estate</u>	<u>Residential Real Estate</u>	<u>Construction and Land</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
Allowance for credit losses							
Beginning balance	\$ 477,000	\$ 1,451,905	\$ 352,807	\$ 414,594	\$ 14,507	\$ (2,109)	\$ 2,708,704
Charge-offs	(1,723,004)	(2,359,407)	(46,000)	(930,735)	(204)	-	(5,059,350)
Recoveries	17,568	-	4,188	-	1,854	-	23,610
Provision	<u>2,538,115</u>	<u>1,745,990</u>	<u>87,526</u>	<u>801,564</u>	<u>5,746</u>	<u>(3,941)</u>	<u>5,175,000</u>
Ending balance	<u>\$ 1,309,679</u>	<u>\$ 838,488</u>	<u>\$ 398,521</u>	<u>\$ 285,423</u>	<u>\$ 21,903</u>	<u>\$ (6,050)</u>	<u>\$ 2,847,964</u>
Period-end amount allocated to:							
Loans individually evaluated for impairment	\$ 374,233	\$ -	\$ 175,000	\$ 165,000	\$ 12,362	\$ -	\$ 726,595
Loans collectively evaluated for impairment	<u>935,446</u>	<u>838,488</u>	<u>223,521</u>	<u>120,423</u>	<u>9,541</u>	<u>(6,050)</u>	<u>2,121,369</u>
Ending balance	<u>\$ 1,309,679</u>	<u>\$ 838,488</u>	<u>\$ 398,521</u>	<u>\$ 285,423</u>	<u>\$ 21,903</u>	<u>\$ (6,050)</u>	<u>\$ 2,847,964</u>
Loans							
Individually evaluated for impairment	\$ 833,084	\$ 1,723,572	\$ 865,144	\$ 6,157,625	\$ 27,563	\$ -	\$ 9,606,988
Collectively evaluated for impairment	<u>20,723,315</u>	<u>27,024,001</u>	<u>15,175,673</u>	<u>1,260,974</u>	<u>474,052</u>	<u>-</u>	<u>64,658,015</u>
Ending balance	<u>\$21,556,399</u>	<u>\$28,747,573</u>	<u>\$16,040,817</u>	<u>\$7,418,599</u>	<u>\$501,615</u>	<u>\$ -</u>	<u>\$74,265,003</u>

NOTE 5 – LOANS (CONTINUED)

Changes in the allowance for loan losses for the year ended December 31, 2009 were as follows:

Balance at beginning of year	\$2,954,866
Loans charged-off	(2,109,388)
Recoveries of loans previously charged-off	48,226
Provision for loan losses	<u>1,815,000</u>
	<u><u>\$2,708,704</u></u>

The following table summarizes the credit quality indicators related to the Company's loans, by class, as of December 31, 2010:

Grade:	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Totals</u>
Commercial and industrial					
Commercial	\$15,753,406	\$ -	\$ 1,192,478	\$ 748,466	\$17,694,350
Agricultural	3,862,049	-	-	-	3,862,049
Commercial real estate					
Non-owner occupied	13,516,487	591,544	1,575,821	-	15,683,852
Owner occupied	12,515,458	-	548,263	-	13,063,721
Residential real estate					
Single family	8,881,454	1,999,953	1,121,961	-	12,003,368
Multi-family	4,037,449	-	-	-	4,037,449
Construction and land					
Commercial construction	-	-	4,817,293	-	4,817,293
Land acquisition and development	1,081,134	-	1,520,172	-	2,601,306
Consumer	<u>474,052</u>	<u>-</u>	<u>2,838</u>	<u>24,725</u>	<u>501,615</u>
Total	<u><u>\$60,121,489</u></u>	<u><u>\$2,591,497</u></u>	<u><u>\$10,778,826</u></u>	<u><u>\$ 773,191</u></u>	<u><u>\$74,265,003</u></u>

As a part of the on-going monitoring of the credit quality of the Company's loan portfolio, management monitors certain credit quality indicators including trends related to risk grade classifications, concentrations, net charge-offs, non-performing loans, and the general economic conditions.

The Bank uses a risk grading system to assign a risk grade to each of its loans. Loans are graded on a scale of 1 to 8, with grades 1, 2, 3, 4, and 4w (watch) being termed pass loans and grades 5, 6, 7, and 8 being termed special mention, substandard, doubtful and loss, respectively. A description of the general characteristics of the nine grades is as follows:

Pass (Grades 1 – 4 & 4w) – These loans generally conform to the Company's underwriting criteria and evidence an acceptable level of credit risk.

Special Mention (Grade 5) – These loans have weaknesses that require management's close attention. These weaknesses expose the Company to a sufficient degree of risk to warrant classification. If left uncorrected, these

NOTE 5 – LOANS (CONTINUED)

weaknesses will result in deterioration of the loan's repayment prospects or the borrower's credit position at a future date. Loans in this category are currently protected but are potentially weak. The loans may (particularly in the short term) constitute a greater than average credit risk, but do not presently expose the Company to a sufficient degree of risk to warrant adverse classification. This is a temporary classification pending identification of improvement or deterioration in the criticized asset.

Substandard (Grade 6) – Substandard loans are inadequately protected by current net worth and financial capacity of the borrower or the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual loans classified substandard.

Doubtful (Grade 7) – Loans classified doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The probability of loss is extremely high but because of certain important and reasonably specific pending factors which may work to strengthen (or weaken) the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors that may necessitate a doubtful classification include bankruptcy or liquidation procedures, capital injection, or perfecting liens on additional collateral refinancing plans. The Company considers doubtful to be a temporary classification and will only classify an asset, or portion of an asset, as such when information is not available to conclude as to classification or more clearly define the potential for loss.

Loss (Grade 8) – Assets classified loss are considered uncollectible and of such little value that their continuance as assets is not warranted. This classification does not mean that an asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off a basically worthless asset even though partial recovery may be effected in the future. Losses are taken in the period in which they are identified as uncollectible.

The age analysis of past due loans, by class, as of December 31, 2010 consisted of the following:

	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>Greater Than 90 Days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans</u>	<u>Recorded Investment > 90 Days and Accruing</u>
Commercial and industrial							
Commercial	\$100,526	\$ -	\$ 732,558	\$ 833,084	\$16,861,266	\$17,694,350	\$ -
Agricultural	-	-	-	-	3,862,049	3,862,049	-
Commercial real estate							
Non-owner occupied	-	-	1,281,361	1,281,361	14,402,491	15,683,852	-
Owner occupied	175,016	-	-	175,016	12,888,705	13,063,721	-
Residential real estate							
Single family	621,361	-	2,302,508	2,923,869	9,079,499	12,003,368	1,999,983
Multi-family	-	-	-	-	4,037,449	4,037,449	-
Construction and land							
Commercial construction	-	-	1,397,128	1,397,128	3,420,165	4,817,293	-
Land acquisition and development	-	-	1,340,332	1,340,332	1,260,974	2,601,306	-
Consumer	<u>3,785</u>	<u>5,005</u>	<u>24,725</u>	<u>33,515</u>	<u>468,100</u>	<u>501,615</u>	<u>-</u>
Total	<u>\$900,688</u>	<u>\$ 5,005</u>	<u>\$7,078,612</u>	<u>\$7,984,305</u>	<u>\$66,280,698</u>	<u>\$74,265,003</u>	<u>\$1,999,983</u>

NOTE 5 – LOANS (CONTINUED)

Information related to impaired loans, by class, consisted of the following:

	As of December 31, 2010			For the Year Ended December 31, 2010	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Commercial and industrial					
Commercial	\$ 84,618	\$ 84,618	\$ -	\$ 440,145	\$ 13,570
Agricultural	-	-	-	-	-
Commercial real estate					
Non-owner occupied	1,575,821	1,575,821	-	2,303,233	21,478
Owner occupied	147,751	193,869	-	172,650	18,035
Residential real estate					
Single family	432,142	480,657	-	230,295	13,823
Multi-family	-	-	-	6,246	-
Construction and land					
Commercial construction	4,817,293	4,817,293	-	2,008,423	99,439
Land acquisition and development	-	-	-	299,824	-
Consumer	2,838	27,019	-	5,535	389
Subtotal	7,060,463	7,179,277	-	5,466,351	166,734
With an allowance recorded					
Commercial and industrial					
Commercial	\$ 748,466	\$ 1,008,422	\$374,233	\$ 315,304	\$ 460
Agricultural	-	-	-	-	-
Commercial real estate					
Non-owner occupied	-	-	-	-	-
Owner occupied	-	-	-	-	-
Residential real estate					
Single family	433,002	433,002	175,000	33,308	-
Multi-family	-	-	-	-	-
Construction and land					
Commercial construction	-	-	-	-	-
Land acquisition and development	1,340,332	1,940,332	165,000	1,848,024	-
Consumer	24,725	24,725	12,362	1,902	-
Subtotal	2,546,525	3,406,481	726,595	2,198,538	460
Combined					
Commercial and industrial					
Commercial	\$ 833,084	\$ 1,093,040	\$374,233	\$ 755,449	\$ 14,030
Agricultural	-	-	-	-	-
Commercial real estate					
Non-owner occupied	1,575,821	1,575,821	-	2,303,233	21,478
Owner occupied	147,751	193,869	-	172,650	18,035
Residential real estate					
Single family	865,144	913,659	175,000	263,603	13,823
Multi-family	-	-	-	6,246	-
Construction and land					
Commercial construction	4,817,293	4,817,293	-	2,008,423	99,439
Land acquisition and development	1,340,332	1,940,332	165,000	2,147,848	-
Consumer	27,563	51,744	12,362	7,437	389
Total	<u>\$9,606,988</u>	<u>\$10,585,758</u>	<u>\$726,595</u>	<u>\$7,664,889</u>	<u>\$ 167,194</u>

NOTE 5 – LOANS (CONTINUED)

Year-end non-accrual loans, by class, are as follows:

	<u>DECEMBER 31,</u>	
	<u>2010</u>	<u>2009</u>
Commercial and industrial		
Commercial	\$ 833,084	\$ 296,636
Agricultural	-	-
Commercial real estate		
Non-owner occupied	1,575,821	2,888,000
Owner occupied	147,751	185,765
Residential real estate		
Single family	865,144	289,878
Multi-family	-	-
Construction and land		
Commercial construction	1,397,128	-
Land acquisition and development	1,340,332	2,271,067
Consumer	<u>27,563</u>	<u>7,758</u>
Total	<u>\$6,186,823</u>	<u>\$5,939,104</u>

The average outstanding balance of impaired loans was \$6,477,089 for the year ended December 31, 2009. Interest income recognized on impaired loans from cash receipts totaled \$208,976 during 2009. The Company had an outstanding balance of \$5,939,104 in impaired loans at December 31, 2009. As of December 31, 2009, \$2,888,000 of the impaired loan total had specific reserves of \$640,054 and the remaining impaired balance of \$3,051,104 was determined to require no specific reserve. Forgone interest on non-accrual loans at December 31, 2010 and 2009, was \$616,905 and \$368,749, respectively. At December 31, 2010, one loan totaling \$1,999,983 was over 90 days past due and still accruing interest as it was well collateralized and in the process of collection. At December 31, 2009, there were no loans over 90 days past due that were still accruing interest.

NOTE 6 – PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	<u>DECEMBER 31,</u>	
	<u>2010</u>	<u>2009</u>
Leasehold improvements	\$ 954,100	\$ 813,250
Furniture, fixtures, and equipment	578,487	575,952
Computer equipment	1,920,925	1,699,408
Construction in progress	<u>-</u>	<u>124,513</u>
	3,453,512	3,213,123
Less accumulated depreciation and amortization	<u>(2,691,248)</u>	<u>(2,523,773)</u>
	<u>\$ 762,264</u>	<u>\$ 689,350</u>

Depreciation and amortization expense on premises and equipment totaled \$167,475 and \$206,360 in 2010 and 2009, respectively.

NOTE 7 – TIME DEPOSITS

Time deposits consist of the following:

	DECEMBER 31,	
	2010	2009
Time, under \$100,000	\$10,529,752	\$12,437,147
Time, \$100,000 and over	32,944,399	39,356,657
	\$43,474,151	\$51,793,804

Time deposits issued and their remaining maturities are as follows:

Year Ending December 31,	
2011	\$33,866,706
2012	6,997,050
2013	1,900,097
2014	295,197
2015	401,731
2016	13,370
	\$43,474,151

NOTE 8 – BORROWINGS

The Bank had outstanding secured advances from the Federal Home Loan Bank of San Francisco (FHLBSF) of \$11,250,000 at December 31, 2010 and 2009. The weighted-average interest rate on the FHLBSF debt was 1.51% at December 31, 2010, with borrowings of \$7,500,000 maturing in December 2013 and \$3,750,000 maturing in December 2014. At December 31, 2010, the Bank had unused borrowing capacity with the FHLBSF of \$12.9 million. FHLBSF borrowings are secured under terms of a blanket collateral agreement by a pledge of loans and securities. Interest rates associated with these advances are determined based on prevailing rates when the lines are drawn against. The Bank also has an unused, secured formal borrowing facility with the Federal Reserve Bank of San Francisco totaling \$4.0 million at December 31, 2010.

On May 23, 2006, the Company formed a wholly-owned Delaware statutory business trust, Bank On It, Inc. Statutory Trust I, which issued a 30-year, \$4.0 million subordinated debenture, which matures on June 15, 2036, and \$124,000 common securities to the Company. These debentures qualify as tier I capital under Federal Reserve Guidelines (the proceeds from issuance were transferred from the Trust to the Company and from the Company to the Bank as additional capital). The interest rate on the debentures changes quarterly and interest is paid quarterly at the three-month LIBOR plus 1.43%. The rate at December 31, 2010, was 1.73%. Due to the Agreement (see Note 15) the Company has entered into with the Federal Reserve Bank of San Francisco, the Company is not permitted to pay the interest due on the subordinated debentures and has deferred the payments. The Company has accrued \$148,065 and \$72,340 of interest payable at December 31, 2010 and 2009, respectively. The Company has the right to redeem the debenture in whole or in part on any interest payment date on or after June 15, 2011, at the redemption price. The debenture is subordinated to the claims of the depositors and other creditors of the Company.

NOTE 9 – INCOME TAXES

The income tax provision (benefit) consists of the following:

	YEARS ENDED DECEMBER 31,	
	2010	2009
Current		
Federal	\$ 28,000	\$ (789,000)
State	2,000	2,000
	30,000	(787,000)
Deferred		
Federal	102,000	1,395,000
State	226,000	(453,000)
	328,000	942,000
Income tax provision	\$ 358,000	\$ 155,000

Deferred income taxes reflect the effect of temporary differences between the tax basis of assets and liabilities and the reported amounts of those assets and liabilities for financial reporting purposes. The Company's total deferred tax assets and liabilities consist of the following:

	DECEMBER 31,	
	2010	2009
Deferred tax assets:		
Net operating loss	\$3,858,000	\$ 1,228,000
Allowance for loan losses	353,000	536,000
Write-down on foreclosed real estate	106,000	239,000
Interest on non-accrual loans	254,000	152,000
Accrued vacation	57,000	52,000
Equity compensation	38,000	33,000
Franchise tax	1,000	1,000
Other	90,000	76,000
	4,757,000	2,317,000
Deferred tax liabilities:		
Deferred loan costs	(111,000)	(111,000)
Accumulated accretion	(61,000)	(66,000)
Accumulated depreciation	(128,000)	(16,000)
Prepaid expenses	(138,000)	(143,000)
FHLB stock	(52,000)	(51,000)
Unrealized gain on securities available for sale	(224,000)	(307,000)
	(714,000)	(694,000)
Valuation allowance	(4,043,000)	(1,295,000)
Net deferred income tax asset	\$ -	\$ 328,000

NOTE 9 – INCOME TAXES (CONTINUED)

A valuation allowance is recorded when it is “more likely than not” that some portion of the deferred tax assets (net of deferred tax liabilities) will not be realized. Management considers all available evidence, both positive and negative, in determining whether a valuation allowance is needed. Due to the cumulative losses in recent years, management has determined that a valuation allowance is appropriate. The need for this valuation allowance will be periodically reviewed and benefits will be recognized when they are determined to be realized. The valuation allowance was increased by approximately \$2,748,000 and \$1,295,000 for the years ended December 31, 2010 and 2009, respectively.

As of December 31, 2010 and 2009, the Company has federal net operating loss carryforwards (NOLs) totaling approximately \$8,005,000 and \$1,728,000, respectively. Additionally, at December 31, 2010 and 2009, the Company has state net operating loss carryforwards of approximately \$15,886,000 and \$8,958,000, respectively. Approximately \$1,727,000 of the federal NOLs expire in 2029 and approximately \$6,278,000 of the federal NOLs expire in 2030. Approximately \$5,650,000, \$3,428,000, and \$6,808,000 of the state NOLs expire in 2018, 2019, and 2020, respectively.

NOTE 10 – STOCK COMPENSATION PLAN

The Company’s 1999 Stock Incentive Plan expired in March 2009. All existing options had originally been issued under the 1999 Stock Incentive Plan, which permitted the Company to grant up to 444,707 shares of common stock. No further grants are permitted under the 1999 Stock Incentive Plan. In 2009, the Company’s shareholders approved the 2009 Incentive Stock Plan (the Plan). Under the Company’s 2009 Incentive Stock Plan, the Company may grant options and restricted stock to employees and directors for up to 164,139 shares of common stock. Under both Plans, options and restricted stock vest 20% per year over five years. Options have a stated term of ten years.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted-average assumptions used for grants in 2010 and 2009, respectively: no expected dividends; expected volatility of 44.9% in 2010 and 38.9% in 2009; risk-free interest rate of 2.43% in 2010 and 1.79% in 2009; and expected option term of 65 months in 2010 and 67 months in 2009.

During 2010 and 2009, stock compensation expense charged against income was \$56,210 and \$69,107, respectively. The total income tax benefit recognized in the consolidated statements of operations for share-based compensation was immaterial at December 31, 2010 and 2009.

A summary of the status of the Company’s fixed stock option plan for the years ended December 31, 2010 and 2009, is presented in the following tables:

	DECEMBER 31, 2010	
	Shares	Weighted-Average Exercise Price
For the year ended December 31, 2010:		
Outstanding at beginning of period	168,244	\$ 11.21
Granted	5,000	\$ 3.00
Exercised	-	\$ -
Forfeited	(19,532)	\$ 7.04
Outstanding at end of period	153,712	\$ 11.47

NOTE 10 – STOCK COMPENSATION PLAN (CONTINUED)

	DECEMBER 31,	
	2010	2009
Weighted-average fair value of options granted during the year	\$ 1.31	\$ 1.56
Intrinsic value of options exercised	\$ -	\$ -
Options exercisable at year end	124,233	118,463
Weighted-average exercise price	\$ 11.48	\$ 11.35
Intrinsic value	\$ -	\$ -
Weighted-average remaining contractual life	4.26 years	4.96 years
Options outstanding at year end	153,712	168,244
Weighted-average exercise price	\$ 11.47	\$ 11.21
Intrinsic value	\$ -	\$ -
Weighted-average remaining contractual life	4.76 years	5.84 years

As of December 31, 2010, there was approximately \$70,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements under the Plan. That cost is expected to be recognized over a weighted-average period of 1.83 years. Of the total options outstanding at December 31, 2010, 116,584 were incentive stock options and 37,128 were non-qualified options.

The Company did not grant any restricted stock in 2010 and 2009. A total of 330 shares were forfeited during 2010. No restricted shares were forfeited in 2009. As of December 31, 2010 and 2009, there were 1,979 and 2,309 shares of restricted stock outstanding, none of which had vested. Unrecognized compensation expense related to restricted stock grants totaled approximately \$9,000 as of December 31, 2010.

NOTE 11 – EARNINGS (LOSS) PER SHARE

Earnings (loss) per share (EPS) is calculated based on the weighted average common shares outstanding during the period. Basic EPS excludes dilution and is calculated by dividing net income available to common shareholders by the weighted average common shares outstanding. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

	YEAR ENDED DECEMBER 31, 2010		
	Loss (Numerator)	Shares (Denominator)	Per-Share Amount
Net loss	\$(5,717,251)		
Basic EPS:			
Net loss available to common shareholders	\$(5,717,251)	1,556,329	\$ (3.67)

NOTE 11 – EARNINGS (LOSS) PER SHARE (CONTINUED)

	YEAR ENDED DECEMBER 31, 2009		
	Loss (Numerator)	Shares (Denominator)	Per-Share Amount
Net loss	\$(2,542,390)		
Basic EPS:			
Net loss available to common shareholders	\$(2,542,390)	1,556,329	\$ (1.63)

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Lease commitments – The Company leases certain facilities where it conducts its operations under leases with terms expiring through 2020. The Company recognized rent expense of \$371,996 in 2010 and \$350,810 in 2009.

As of December 31, 2010, the approximate future minimum net rental payments under non-cancelable operating leases for premises were as follows:

2011	\$ 334,277
2012	256,885
2013	220,608
2014	226,666
2015	232,905
Thereafter	611,098
	\$1,882,439

Financial instruments with off-balance-sheet risk – In order to meet the financing needs of its customers, the Company is a party to financial instruments with off-balance-sheet risk. These financial instruments include commitments to extend credit in the form of loans. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Financial instruments whose contract amounts represent credit risk at December 31, 2010:

	Contract Amount
Undisbursed loan commitments	\$21,196,635
Letters of credit	-
	\$21,196,635

NOTE 12 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn on, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company on extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

NOTE 13 – RELATED PARTY TRANSACTIONS

The Company, in the normal course of business, makes loans and receives deposits from its directors, officers, principal shareholders, and their associates. In management's opinion, these transactions are on substantially the same terms as comparable transactions with other customers of the Company. Loans to directors, officers, shareholders, and affiliates are summarized below:

	YEARS ENDED DECEMBER 31,	
	2010	2009
Aggregate amount outstanding, beginning of year	\$5,177,962	\$1,240,957
New loans or advances during year	1,849,000	10,155,275
Transfers to related party	-	1,132,577
Repayments during year	<u>(2,432,781)</u>	<u>(7,350,847)</u>
Aggregate amount outstanding, end of year	<u>\$4,594,181</u>	<u>\$5,177,962</u>

Transfers represent loans that were outstanding to individuals who became members of the Board of Directors in 2009, less amounts held by individuals who retired from the Board of Directors during 2009.

The aggregate amount of deposits received from related parties at December 31, 2010 and 2009, was approximately \$11,234,731 and \$20,124,253, respectively.

NOTE 14 – EMPLOYEE BENEFIT PLAN

The Company offers a 401(k) profit sharing plan (the PS Plan), which is available to all employees who have completed three months of service with the Company except: 1) an employee who has not attained age 21, or 2) an employee covered by a collective bargaining agreement. Eligible employees can contribute up to 15% of gross compensation to the PS Plan. The Company can elect to make a profit sharing contribution that would be allocated to each PS Plan participant based on compensation relative to other participants. Vesting of Company profit sharing contributions to the PS Plan occurs at a rate of 20% per year starting in the second year of service. The Company made no profit sharing contributions to the PS Plan for the years ended December 31, 2010 and 2009.

Effective January 1, 2009, the Company amended the PS Plan to include an automatic deferral feature to withhold a percentage of compensation each payroll period unless otherwise instructed by the employee. Total deferrals allowed in any taxable year may not exceed a dollar limit which is set by law. The limit for 2010 was \$16,500. In addition to the annual dollar limit, the law requires testing of deferrals to ensure that deferrals by Highly Compensated Employees (HCEs) do not exceed certain limits. Generally, this number is no more than 2% above the average deferral percentage of all non-HCE participants in the PS Plan.

NOTE 15 – REGULATORY MATTERS

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory (and possibly additional discretionary) actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of tier I capital (as defined) to average assets (as defined).

The Company's (on a consolidated basis) actual capital amounts and ratios are presented in the following table:

	<u>Actual</u>		<u>For capital adequacy purposes</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
December 31, 2010:				
Total risk-based capital (to risk-weighted assets)	\$10,408,000	11.78%	\$7,066,000	≥ 8.0%
Tier I capital (to risk-weighted assets)	\$ 9,306,000	10.54%	\$3,533,000	≥ 4.0%
Tier I capital (to average assets)	\$ 9,306,000	7.15%	\$5,209,000	≥ 4.0%
December 31, 2009:				
Total risk-based capital (to risk-weighted assets)	\$16,383,000	15.52%	\$8,445,000	≥ 8.0%
Tier I capital (to risk-weighted assets)	\$15,064,000	14.27%	\$4,223,000	≥ 4.0%
Tier I capital (to average assets)	\$15,064,000	10.78%	\$5,590,000	≥ 4.0%

The Bank's actual capital amounts and ratios are presented in the following table:

	<u>Actual</u>		<u>For capital adequacy purposes</u>		<u>To be well capitalized under PCA</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
December 31, 2010:						
Total risk-based capital (to risk-weighted assets)	\$10,031,000	11.63%	\$6,900,000	≥ 8.0%	\$ 8,625,000	≥ 10.0%
Tier I capital (to risk-weighted assets)	\$ 8,930,000	10.35%	\$3,450,000	≥ 4.0%	\$ 5,175,000	≥ 6.0%
Tier I capital (to average assets)	\$ 8,930,000	6.86%	\$5,209,000	≥ 4.0%	\$ 6,511,000	≥ 5.0%
December 31, 2009:						
Total risk-based capital (to risk-weighted assets)	\$15,775,000	15.16%	\$8,323,000	≥ 8.0%	\$10,403,000	≥ 10.0%
Tier I capital (to risk-weighted assets)	\$14,456,000	13.90%	\$4,161,000	≥ 4.0%	\$ 6,242,000	≥ 6.0%
Tier I capital (to average assets)	\$14,456,000	10.35%	\$5,586,000	≥ 4.0%	\$ 6,983,000	≥ 5.0%

NOTE 15 – REGULATORY MATTERS (CONTINUED)

On November 17, 2008, the Bank stipulated to the entry of an order (Stipulation) with the FDIC and the California Department of Financial Institutions (DFI) whereby the Bank agreed to a number of steps to improve various areas of the Bank's operations, including (but not limited to):

- Maintaining capital ratios in excess of the standard minimum requirements. Specifically, the Stipulation requires the Bank to maintain total risk-based capital, tier I capital to risk-weighted assets (tier I risk-based), and tier I capital to average assets (tier I leverage) ratios of 13.0%, 10.0%, and 8.0%, respectively. As of December 31, 2010, the Bank's total risk-based capital and tier I leverage ratios were below the levels required by the Stipulation;
- Improving the quality of the Bank's loan portfolio; and
- Developing a three-year strategic plan to improve profitability.

On April 20, 2009, the Company entered into a written agreement (Agreement) between the Company and the Federal Reserve Bank of San Francisco (Reserve Bank). The Agreement requires that the Company and the Bank obtain the prior approval of the Reserve Bank prior to: 1) declaring or paying any cash dividends, 2) making any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities, 3) incurring, increasing, or guaranteeing any debt, and 4) purchasing or redeeming any shares of its stock. Management is required to provide reports on its progress in improving the overall financial condition of the Company.

Management continues to work to address and/or comply with all issues noted in the Stipulation with the FDIC and DFI, as well as the Agreement with the Reserve Bank.

Management's operating plan – Due to the operating losses incurred during 2010, the Bank did not meet the minimum capital amounts required in the Stipulation. Accordingly, the Board of Directors and management have determined that additional sources of capital are required for the Bank to ensure continued operations and fund future growth through 2011 and beyond. The Company has engaged an investment banking firm to explore various capital raising alternatives.

Management's three-year strategic and capital plan identifies specific measures that have been, or will be, implemented to increase capital levels, return the Bank to consistent profitability, and improve the Bank's overall risk profile.

Management continues to work to reduce problem assets (non-performing loans and foreclosed real estate). The Bank has hired an experienced special assets manager with extensive knowledge of the local economy and real estate market, and the special assets committee is now chaired by a member of the Board of Directors and staffed by individuals possessing a high level of expertise in this area.

The Bank is also undergoing a thorough evaluation of the credit quality of the loan portfolio to anticipate any need for additional capital as a result of identified and potential loan losses. A majority of the loan losses taken over the past three years have been on construction loans and loans secured by non-owner occupied commercial real estate. The Bank has reduced the level of these loans and outstanding commitments by \$30 million since 2008, declining from \$53 million to \$23 million, thereby reducing the risk associated with this portfolio.

In addition to exploring strategic alternatives, the Bank is also pursuing short-term strategies to improve regulatory capital levels. Such actions include selling of investment securities to recognize gains and simultaneously restructure the portfolio to a lower risk level, reducing excess cash through liability management strategies, and focusing on the origination of loans for sale rather than for the portfolio.

NOTE 16 – RESTRICTIONS ON RETAINED EARNINGS

Under current California state banking laws, the Bank may not pay cash dividends in an amount that exceeds the lesser of retained earnings of the Bank or the Bank's net earnings for its last three fiscal years (less the amount of any distributions to shareholders made during that period). If the above requirements are not met, cash dividends may only be paid with the prior approval of the Commissioner of the DFI, in an amount not exceeding the Bank's net earnings for its last fiscal year or the amount of its net earnings for its current fiscal year. Accordingly, the future payment of cash dividends will depend on the Bank's earnings and its ability to meet its capital requirements.

In addition, on November 17, 2008, the Bank stipulated to the entry of an order with the FDIC and the DFI whereby the Bank is prohibited from the payment of cash dividends without the prior written consent of the FDIC and the DFI.

NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values of financial instruments are management's estimates of the values at which instruments could be exchanged in a transaction between willing parties. These estimates are subjective and may vary significantly from amounts that would be realized in actual transactions. Further, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on the fair value estimates and have not been considered in any of these estimates. The following table presents estimated fair values of the Company's consolidated financial instruments as of December 31, 2010 and 2009.

The estimated fair values of the Company's financial instruments at year-end are approximately as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Carrying Amounts</u>	<u>Estimated Fair Values</u>	<u>Carrying Amounts</u>	<u>Estimated Fair Values</u>
Financial assets:				
Cash and cash equivalents	\$22,162,689	\$22,162,689	\$23,179,431	\$23,179,431
Securities available for sale	25,323,046	25,323,046	25,961,954	25,961,954
Securities held to maturity	6,597,204	6,865,440	6,947,266	7,272,888
FHLB stock and other investments	679,450	679,450	764,250	764,250
Loans, net	71,483,918	71,739,760	83,125,433	83,334,231
Interest receivable	594,657	594,657	507,147	507,147
Financial liabilities:				
Non-maturity deposits	(66,047,075)	(66,047,075)	(67,150,810)	(67,150,810)
Time deposits	(43,474,151)	(43,785,157)	(51,793,804)	(52,008,261)
FHLB borrowings	(11,250,000)	(11,911,486)	(11,250,000)	(11,914,075)
Junior subordinated debt	(4,124,000)	(3,212,110)	(4,124,000)	(2,202,691)
Interest payable	(148,323)	(148,323)	(86,826)	(86,826)
Off-balance-sheet liabilities:				
Undisbursed loan commitments	-	(212,000)	-	(243,000)

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Company groups assets and liabilities at fair value in a three-level valuation hierarchy for disclosure of fair value measurement. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. Some fair value measurements, such as available-for-sale securities are performed on a recurring basis, while others such as foreclosed real estate and impaired loans are performed on a nonrecurring basis.

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 and 2009, as well as assets and liabilities for which a non-recurring change in the fair value has been recorded as of December 31, 2010 and 2009. The table indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

Description of Assets	December 31, 2010	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		(Level 1)	(Level 2)	(Level 3)
Securities available for sale				
U. S. Treasury securities	\$ 1,566,328	\$ 1,566,328	\$ -	\$ -
U. S. government agencies	9,408,612	-	9,408,612	-
Mortgage-backed securities	14,348,106	-	14,348,106	-
Foreclosed real estate ⁽¹⁾	1,894,874	-	-	1,894,874
Impaired loans ⁽¹⁾	8,305,727	-	-	8,305,727
Total	\$ 35,523,647	\$ 1,566,328	\$ 23,756,718	\$ 10,200,601
Description of Assets	December 31, 2009	(Level 1)	(Level 2)	(Level 3)
Securities available for sale				
U.S. government agencies	\$ 5,605,515	\$ -	\$ 5,605,515	\$ -
Mortgage-backed securities	20,356,439	-	20,356,439	-
Foreclosed real estate ⁽¹⁾	1,273,703	-	-	1,273,703
Impaired loans ⁽¹⁾	5,299,050	-	-	5,299,050
Total	\$ 32,534,707	\$ -	\$ 25,961,954	\$ 6,572,753

⁽¹⁾ Nonrecurring item

NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements for impaired loans are based on either collateral values supported by appraisals, or observed market prices. The change in fair value of impaired loans that were valued based upon Level 3 inputs increased by approximately \$3,006,677 during 2010 due to the increase in the Company's impaired loans. Any loss recognized on impaired loans is not recorded directly as an adjustment to current earnings but rather as an adjustment component in determining the overall adequacy of the allowance for loan losses. Such adjustments to the estimated fair value of impaired loans may result in increases or decreases to the provision for loan losses recorded in current earnings. The increase in fair value of foreclosed real estate of \$621,171 resulted from the Company foreclosing on the underlying collateral of loans that were previously impaired and sales of property previously foreclosed on.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Cash and cash equivalents – For short-term instruments, including cash and due from banks, and interest-bearing deposits with banks, the carrying amount is a reasonable estimate of fair value.

Securities – Fair values for investment securities are based on quoted market prices when available or through the use of alternative approaches, such as a matrix or model pricing, when market quotes are not readily accessible or available.

FHLB stock and other investments – For FHLB stock and other investments, the carrying amount is a reasonable estimate of fair value.

Impaired loans – The Company utilizes current appraisals and applies discount factors estimated and modeled for consistency by management to arrive at the estimate of fair value for all collateral dependent loans.

Foreclosed real estate – The Company utilizes current appraisals discounted for estimated selling costs to arrive at the estimate of fair value for all foreclosed real estate.

Loans – For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for fixed rate loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying amount of interest receivable approximates its fair value. The Company's allowance for loan and lease losses is a reasonable estimate of the valuation allowance needed to adjust computed fair values for quality of certain loans in the portfolio.

Interest receivable and payable – For interest receivable and payable, the carrying amount is estimated to be the fair value.

Commitments to extend credit – The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

Deposit liabilities – The fair values disclosed for non-maturity deposits (e.g., interest and non-interest checking, statement savings, and money market accounts) are, by definition, equal to the amount payable at the reporting date (i.e., their carrying amounts). The fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. The carrying amount of interest payable approximates its fair value.

NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

FHLB borrowings – The fair value of the borrowings is calculated based on the discounted value of the contractual cash flows using current rates at which such borrowings can currently be obtained.

Junior subordinated debt – The fair value of junior subordinated debt is estimated using a discounted cash flow model.

Limitations – Fair value estimates are made at a specific point in time, based on relevant market information and other information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument.

Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors.

NOTE 18 – OTHER NON-INTEREST EXPENSE

Other non-interest expense is comprised of the following:

	DECEMBER 31,	
	2010	2009
Professional fees	\$ 684,763	\$ 464,759
FDIC insurance	368,920	420,000
Foreclosed real estate	474,908	229,525
Data processing	236,762	218,452
Supplies	140,676	133,336
Marketing	72,094	63,767
Dues and subscriptions	49,389	52,443
Other	362,547	292,982
 Total	 \$2,390,059	 \$1,875,264

NOTE 19 – SUBSEQUENT EVENTS

The Company has evaluated the effects of subsequent events that have occurred after the period ending December 31, 2010, and through April 15, 2011, which is the date the consolidated financial statements were issued.

SHAREHOLDER RELATIONS

The stock of Bank On It, Inc. (parent company of Community Bank of San Joaquin) is listed on the Over-The-Counter Bulletin Board (OTCBB) exchange. If you are interested in buying or selling Bank On It, Inc. stock, please contact one of the market makers listed or your broker.

Stock Exchange:
Over-The-Counter Bulletin Board (OTCBB)

Ticker Symbol:
BKOT

Market Makers:
Howe Barnes Hofer & Arnett, Inc.
David Perry
(800) 774-8723

McAdams Wright Ragen, Inc.
Joey Warmenhoven
(866) 662-0351

Stock Transfer Agent:
Broadridge Financial Solutions, Inc.
44 W. Lancaster Avenue
Ardmore, PA 19003
(800) 733-1121
www.broadridge.com

Additional Information:
You may obtain information about the buy/sell activity of our stock through these web sites: www.cbsjbank.com/shareholders or www.otcbb.com

Bank On It, Inc. Contact:
Jane Butterfield
CEO, President
(209) 956-7000

ANNUAL DISCLOSURE STATEMENT *Bank On It, Inc. Annual Report*

This annual report is furnished to customers of Community Bank of San Joaquin upon request, pursuant to the requirement of the Federal Deposit Insurance Corporation (FDIC) to provide an annual disclosure statement. This annual report has not been reviewed or confirmed for accuracy or relevance by the FDIC.

BOARD OF DIRECTORS

Jane Butterfield

*CEO, President, Bank On It, Inc.,
Community Bank of San Joaquin*

Rudy G. Croce

*Past President
Croce & Company Accountancy Corporation*

Chair

Bank On It, Inc., Community Bank of San Joaquin

Barbara M. Dondero

*Co-owner
R. & J. Dondero, Inc.*

Dennis Donald Geiger

*Partner
Geiger & Keen, LLP*

James R. Hanley

*President
Hanley Construction, Inc.*

Javad Jamshidi, M.D.

*President
Stockton MRI & Molecular Imaging Medical
Center, Inc.*

Kathleen Lagorio Janssen

*CEO, Ace Tomato Company
Vice Chair, Bank On It, Inc.,
Community Bank of San Joaquin*

*Chief Financial Officer
Bank On It, Inc.*

Gregory J. Tudor

*President
Pacific Storage Company*

Tobbie J. Wells

*Partner
Bowman & Company, LLP*

DIRECTORS EMERITUS

Al Davidson

Retired Businessman

James Lagorio

Co-Owner, Farming Corporation

BANK OFFICERS

Jane Butterfield

Chief Executive Officer, President

John Baughn

*Executive Vice President
Manager of Information Systems*

Marti Denk

*Executive Vice President, Corporate Secretary
Chief Operating Officer*

Richard Dodge, CFA

*Executive Vice President
Chief Financial Officer*

James Jimenez

*Senior Vice President
Trust and Investment Services Manager*

Laura Maffei

*Senior Vice President
Senior Loan Officer*

Jack Schuffenhauer

*Senior Vice President
Senior Relationship Manager*

Gary Stewart

*Senior Vice President
Special Assets and Business Development Manager*

Rodney Giannecchini

*Vice President
Controller*

Michael Letizia, PHR-CA

*Vice President
Human Resources and Security Manager*

Leandro Vicuna

*Vice President
Senior Trust Officer*

Josef Britschgi

*Assistant Vice President
Electronic Banking and Marketing Manager*

James Havey

*Assistant Vice President
Trust and Investment Services Officer*

Tammy Heskett

*Assistant Vice President
Branch Manager - Stockton Branches*

Linda M. Hevener

*Assistant Vice President
Loan Services and Compliance Manager*

John Lozano

*Assistant Vice President
Loan Officer*

Daniel Meza

*Assistant Vice President
Loan Officer*

Kathy M. Robbins

*Assistant Vice President
Deposit Services Manager*



Community Bank
of San Joaquin

A Subsidiary of Bank On It, Inc.

Main Branch

22 West Yokuts Ave.
Stockton, CA 95207-5715
Tel: (209) 956-7000
Fax: (209) 956-7720

Waterloo Branch

4426 East Waterloo Road
Stockton, CA 95215-2306
Tel: (209) 373-4300
Fax: (209) 373-4350

www.cbsjbank.com